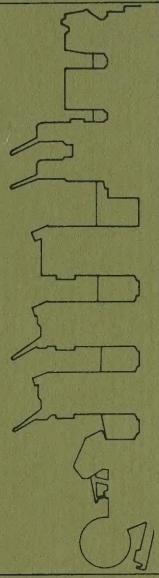


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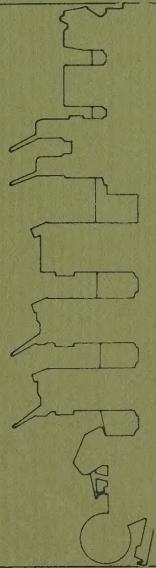
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KEYSTONE BUSINESS FORMS LTD.

**INTERIM REPORT
TO THE SHAREHOLDERS**

For Six months ended May 31, 1971



KEYSTONE BUSINESS FORMS LTD.

TO THE SHAREHOLDERS:

Keystone Business Forms Ltd. Net Profit for the first half of this fiscal year decreased by approximately 27% from the equivalent period a year ago despite the fact that sales were off by less than 2%.

The drop in profit is attributable to the following factors:

1. Increased labor costs accounting for approximately 40% of the change.
2. Increased paper & material costs accounting for approximately 30% of the change.
3. Depressed market prices accounting for approximately 30% of the change.

To better illustrate the performance of your company during the past year and a half we have inserted a column covering the last half of 1970. While the fluctuations during these three periods are pronounced it is encouraging to note the improvement in earnings per share from 9¢ in the last half of 1970 to 16¢ in the first half of 1971.

The business forms industry exhibits a two to three month reaction period to swings in the economy. In B.C. we were already encountering economic problems in the early spring of 1970 yet Keystone still came up with the best half-year on record. We all know what happened in the last half of the year and the profit of 9¢ per share is a reflection of those troubled times. As the year drew to a close conditions tended to stabilize. The result of 16¢ per share to end of May 1971 indicates the improvement in the economic climate.

We share the view of many in the business community that the release of the Budget and Tax Reform information has removed many uncertainties and look forward to increased business activity. We expect to share in this anticipated improvement particularly during the last 4 months of 1971.

STATEMENT OF PROFIT AND LOSS FOR THE SIX MONTHS ENDED 31 MAY 1971 (With comparative amounts for the six months ended 30 November 1970 and 31 May 1970)

| | 31 May 1971 | 30 Nov. 1970 | 31 May 1970 |
|-------------------------------------|------------------|------------------|------------------|
| Sales | | | |
| Cost of Sales | \$732,006 | \$641,000 | \$744,080 |
| Gross Profit | 501,902 | 458,769 | 458,174 |
| General and Administrative Expenses | <u>230,104</u> | <u>182,231</u> | <u>285,906</u> |
| Operating Profit | 88,144 | 81,296 | 89,436 |
| Other Income | 49,373 | 46,488 | 55,622 |
| Net Profit before Taxes on Income | <u>137,517</u> | <u>127,784</u> | <u>145,058</u> |
| Provision for Income Taxes | | | |
| Net Profit | 43,000 | 24,000 | 70,000 |
| Earnings per Share | <u>\$ 53,188</u> | <u>\$ 31,356</u> | <u>\$ 72,904</u> |
| | \$.16 | \$.09 | \$.22 |

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds:

Operations (Including Non-Cash Items added back:
1971 - \$18,550; Nov. 1970 - \$24,939; May 1970 - \$25,240)

Pension Past Service Refund, less taxes thereon

| | | | |
|--|------------------|------------------|------------------|
| Application of Funds: | | | |
| Acquisition of Fixed Assets | 37,017 | 33,724 | 1,396 |
| Dividends | <u>33,333</u> | <u>16,666</u> | <u>16,667</u> |
| Increase in Working Capital | 70,350 | 50,390 | 18,063 |
| Working Capital at Beginning of Period | 248,568 | 235,957 | 155,876 |
| Working Capital at End of Period | <u>\$249,956</u> | <u>\$248,568</u> | <u>\$235,957</u> |

THE ABOVE STATEMENTS ARE UNAUDITED AND SUBJECT TO YEAR-END ADJUSTMENTS.